

Members:

Sen. Tom Weatherwax, Chairperson
Sen. Richard Young
Sen. James Merritt
Sen. Katie Wolf
Rep. Markt Lytle
Rep. Claire Leuck
Rep. James Buck
Rep. William Friend

Advisory Members:

Herschel Cook
David Butterfield
Barbara Haas
Karen Large
Howard Hatcher
William Goffinet
James Murphy
Judith Anderson
Eugene Hostettler
Stephen Queior
David Bennett
Michael Clayton

LSA Staff:

Edward Gohmann, Attorney for the Commission
David Hoppmann, Fiscal Analyst for the Commission

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LOCAL GOVERNMENT FINANCE STUDY COMMISSION

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MEETING MINUTES

Meeting Date: July 9, 1998
Meeting Time: 2:00 P.M.
Meeting Place: State House, 200 W. Washington St.,
Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 1

Members Present: Sen. Thomas Weatherwax, Chairperson; Sen. James Merritt; Sen. Katie Wolf; Sen. Richard Young; Rep. Claire Leuck; Rep. James Buck; Rep. William Friend; Barbara Haas; Karen Large; Judith Anderson; James Murphy.

Members Absent: Rep. Markt Lytle; Herschel Cook; David Butterfield; Howard Hatcher; William Goffinet; Eugene Hostettler; Stephen Queior; David Bennett; Michael Claytor.

1. Call to Order

Senator Tom Weatherwax, the Chairman of the Commission, called the meeting to order shortly after 2:00 p.m.

2. Review of the Commission's Past Work; Discussion of Possible Study Topics

After the members of the Commission had introduced themselves, Senator Weatherwax stated that he had called the first meeting to allow the Commission

members to discuss what issues they would like the Commission to study this summer. He stated that he had asked the Commission's staff to put together a brief overview of the topics the Commission had studied since it was first established in 1992.

Senator Weatherwax then called on Mr. Ed Gohmann, the attorney for the Commission, to describe the Commission's work since 1992 and the findings and recommendations it had made during that period. Mr. Gohmann distributed copies of "Local Government Finance Study Commission: Review of the Commission's Work (1992-1997)".¹ He then described the Commission's membership and the duties given to the Commission by the legislation that had established it. Mr. Gohmann then presented a brief year-by-year analysis of the major issues studied by the Commission since its inception and a summary of the Commission's findings and recommendations.

After the conclusion of Mr. Gohmann's review of the Commission's past work, the staff distributed certain reports and exhibits prepared as background material by Mr. Dave Hoppmann, the fiscal analyst for the Commission.²

Senator Richard Young noted that the Commission had done a thorough job studying a number of issues and that it was important not to duplicate past work. Senator Weatherwax commented that the Commission needed to focus on a few issues and build on the Commission's past work.

Senator Weatherwax explained that he did not want to duplicate the work of the Citizens' Commission on Taxes, but because it was uncertain as to what the Citizens' Commission would recommend he thought the Local Government Finance Study Commission should move forward with study and recommendation on specific issues. Senator Weatherwax added that he had made members of the Citizens' Commission aware of studies and reports that had previously been prepared by the Local Government Finance Study Commission.

Representative Jim Buck commented that many of the issues that had been studied by the Commission since 1992 were currently at the forefront of the General Assembly's policy debates. He stated that he would like the Commission to study the issues related to the Indiana Supreme Court's review of the Indiana property assessment system. He noted that the case challenging the constitutionality of the assessment

¹Copies of this report distributed by Mr. Gohmann are on file in the Legislative Information Center, Room 230, State House, Indianapolis, Indiana 46204. The telephone number of the Legislative Information Center is (317) 232-9856.

²These reports included "County Income Taxes, FY99"; "Change in Total Statewide Net Levy and IPI"; "Change in Total Statewide Net Levy and CPI"; "Change in Statewide Net Levy and AV"; "1998 Total Gross Levy By Unit"; "1998 Total Gross Levy By School Fund"; and "1998 School Corporation General Fund Gross Levies." A copy of each of these reports is on file in the Legislative Information Center (see footnote 1).

system is scheduled for argument in early September. Representative Buck said that the Commission should study what could be done to the property tax system if the current system were to be found unconstitutional. He specifically pointed to the potential shift of the property tax burden to homeowners if the Court were to require a fair market value system of property assessment. Representative Buck suggested requesting someone from the Citizens' Commission on Taxation to report on that commission's work.

Senator Weatherwax stated that he was interested in having the Commission come up with proposals to help alleviate the burden of the property tax on inventory, whether through a repeal of the inventory tax or through some form of credit against property taxes on inventory. He discussed the possibility of allowing counties the option of whether or not to impose property taxes on inventory. Senator Weatherwax stated that the additional investment, employment, and economic activity generated by a repeal of the inventory tax would offset the revenue lost because of the repeal. Senator Young agreed that the Commission should study inventory taxation.

Senator Weatherwax then suggested that the Commission should address the issue of property tax controls. He discussed how property tax levies had increased in the past, and he stated that there needed to be stronger forms of control on the growth of property taxes. Senator Weatherwax noted that he had previously authored a bill in the Senate that attempted to control the growth in property taxes by requiring a board consisting of certain local elected officials to approve any increases in property tax rates. He explained that his proposed legislation had also included a referendum mechanism through which citizens could prohibit property tax rate increases. Senator Weatherwax stated that he believed such a system would return both control and accountability to the local level.

Senator Weatherwax also stated that he believed the Commission should consider the possibility of replacing school general fund property taxes with some other form of revenue. He said that the Commission should attempt to lead the debate on the difficult issues and questions.

Senator Weatherwax stated that regardless of what topics the Commission studied, it needed to ensure that its recommendations would have a positive effect on economic development in Indiana.

Senator Katie Wolf described how the Commission had in the past studied the issue of whether units of local government should be authorized to establish local "rainy day" funds. She suggested that this would be an appropriate issue for the Commission to review. Representative Buck stated that if local governments were going to become less reliant on property taxation, they would need something like a rainy day fund to achieve financial stability during economic downturns. Representative Bill Friend commented that the arguments in favor of authorizing local rainy day funds were often

countered by the general philosophy that government should be structured so that it took in no more tax revenue than it needed. He offered the various cumulative funds as examples of specific savings mechanisms that were already in place.

Representative Buck then noted that Indiana's income tax return requires taxpayers to identify the school district in which they reside, but that taxpayers often fail to include that information with their returns or they incorrectly identify their school districts. He explained that if the General Assembly repeals or limits school general fund property taxes, it will need complete and accurate information on income levels in each school district for the necessary reallocation of state education funding money.

Representative Buck said that the Commission had previously heard testimony from the Department of Revenue concerning taxpayers' compliance with these requirements to identify their school districts. He noted that in 1995, taxpayer compliance with this information requirement was approximately at a 60% level, but based on the latest data compliance seemed to have improved. Representative Buck suggested that the Commission should request the Department of Revenue to testify concerning this compliance issue. Senator Weatherwax stated that this compliance issue would also be crucial if the General Assembly were to consider the funding of schools through local option income taxes instead of property taxes.

Senator Weatherwax then briefly described the current system of property taxation of the rolling stock of railroad car companies, explaining that this property is assessed on a state-wide basis and that, unlike other types of property tax, the tax is paid to the Department of Revenue and is distributed to the Northern Indiana Commuter Transportation District. He stated that the latest figures show that the property tax on rolling stock is over \$4.9 million and that perhaps it should not all be distributed to one particular entity. He commented that many members of the General Assembly might not be aware of the manner in which rolling stock is taxed and in which the revenue is distributed, and he suggested the Commission should study that topic.

Commission member Ms. Karen Large, the Miami County Auditor, suggested that the Commission should review the problems that some counties that have imposed the County Option Income Tax ("COIT") face when there are significant year-to-year fluctuations in the amount of certified shares of COIT revenues that are distributed. She stated that these fluctuations make the local budgeting decisions much more difficult. She added that the same problem might be affecting counties that have imposed the County Adjusted Gross Income Tax.

Commission member Ms. Barbara Haas, the Clark County Treasurer, commented that local officials, particularly city council members, may need to do a more thorough job of educating citizens on the issues related to local option income taxes. She noted that the turnover rate on some city councils made this difficult.

Representative Buck suggested that the Commission could study the issue of again lowering motor vehicle excise tax rates. He stated that he believed the 1995 reductions in motor vehicle excise taxes had led to increased employment and that a further cut would also have positive economic effects.

Senator Young commented that a number of topics suggested for study by the Commission were being studied by other entities, particularly the Citizens' Commission on Taxation. He cautioned that the Commission should strive not to duplicate work being performed by other groups. Senator Weatherwax stated that the Commission should focus on a few topics, but that it should not be afraid to study controversial topics.

3. Next Meeting Date

Senator Weatherwax announced that the next meeting of the Commission would be held at 10:00 a.m. on Tuesday, July 21, 1998, at the State House. He noted that after the July 21 meeting, the Commission would probably not meet again until early September.

4. Adjournment

Having no other business to conduct, Senator Weatherwax thanked the Commission members for their work and adjourned the meeting at approximately 3:45 p.m.